

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

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Kyle E. Troyer, CPA  
Herman A. Bertuleit

DISTRICT HEALTH DEPARTMENT NO. 2  
OGEMAW COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2007

# I\_N\_D\_E\_X

## AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 6
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
<b><u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u></b>	
STATEMENT OF NET ASSETS	7
STATEMENT OF ACTIVITIES	8
<b><u>FUND FINANCIAL STATEMENTS</u></b>	
BALANCE SHEET - GOVERNMENTAL FUND	9
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	10
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND	11
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES	12
<b><u>NOTES TO FINANCIAL STATEMENTS</u></b>	13 - 25
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DISTRICT HEALTH FUND - SPECIAL REVENUE FUND	26
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	27 - 28



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December 10, 2007

Independent Auditors' Report

Members of the Board  
District Health Department No. 2  
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of District Health Department No. 2, Ogemaw County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Health Department's basic financial statements, as listed in the index. These financial statements are the responsibility of the Health Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of District Health Department No. 2 as of September 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

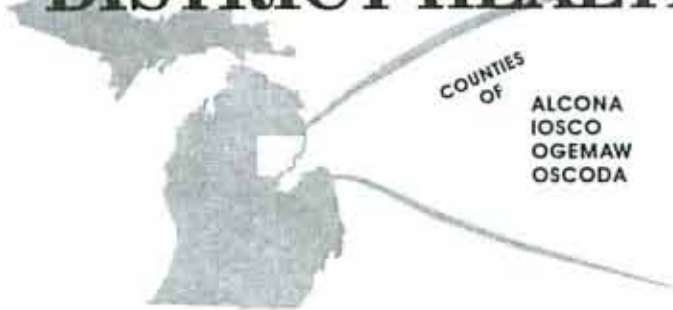
In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007, on our consideration of District Health Department No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Stephenson, Gracik & Co., P.C.*



# DISTRICT HEALTH DEPARTMENT NO. 2



## MAIN OFFICE

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West Branch, MI 48861  
Tel: (989) 343-5020  
Fax: (989) 343-1899

## BRANCH OFFICES

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311 Lake St., P.O. Box 218  
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Iosco County Building Annex  
420 W. Lake Street, P.O. Box 98  
Tawas City, MI 48764  
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393 S. Mt. Tom Road  
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of **District Health Department No. 2, Michigan**, (the District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2007. This Analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34).

### Financial Highlights

- The District's assets exceeded its liabilities by \$848,083 (*net assets*) for the fiscal year reported. Of this amount, \$767,239 (*unrestricted net assets*) represents the portion available to maintain the District's continuing obligations to citizens and creditors.
- The District's total net assets decreased by \$22,003.
- The District's governmental fund reported combined ending fund balance of \$955,922 this year. This compares to the prior year ending fund balance of \$824,169 showing an increase of \$131,753 during the current year. Unreserved fund balance of \$776,624 for fiscal year 2007 shows a \$258,416 increase over the prior year. This accounts for 81% of the total fund balance and is available for spending at the District's discretion (*unreserved fund balance*).
- The District recognized revenue in the fiscal year ending September 30, 2007 of \$212,155 related to expenses included in the fiscal year ending September 30, 2006. The revenue could not be recognized in the prior year because it was not received within 60 days of the year-end.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The District also includes in this report other supplementary information in addition to the basic financial statements themselves.

### Government-wide Financial Statements

The District's audit report includes the *government-wide financial statements*. These statements provide both long-term and short-term information about the District's overall status in a manner similar to a private-sector business, and are reported using the full accrual basis of accounting.

The *statement of net assets* provides information on all of the District's assets and liabilities, with the difference between the two being reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* provides information showing how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The government-wide financial statements can be found in the Statement of Net Assets and the Statement of Activities in this report.

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations.

***Governmental Funds.*** *Governmental funds* are reported in the fund financial statements and encompass essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental fund. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's short-term financing requirements.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balance provide a reconciliation to assist in understanding the differences between these two perspectives.

The District maintains 56 individual governmental funding sources that make up one general fund. Data from these sources are combined into a single, aggregated presentation.

The District adopts an annual budget and budgetary comparison statements are included in the basic financial statements to demonstrate compliance.

The government fund financial statements can be found in the Balance Sheet, Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities, Statement of Revenue, Expenditures and Changes in Fund Balance Governmental Fund, and Reconciliation of the Statement of Revenue, Expenditure and Changes in Fund Balance of the Governmental Fund to the Statement of Activities in this report.

### **Notes to Financial Statements**

The accompanying notes to financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual.

### **Analysis of Financial Position:**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of District Health Department No. 2, assets exceeded liabilities by \$848,083 at the close of the fiscal year.

### Summary of Net Assets:

The following summarizes the net assets of District Health Department No. 2 at September 30, 2007 and 2006:

#### Net Assets Summary

	<u>2007</u>	<u>2006</u>
Current Assets	\$ 1,126,576	\$ 1,198,106
Capital Assets, Net	<u>83,380</u>	<u>109,353</u>
<b>Total Assets</b>	<u>1,209,956</u>	<u>1,307,459</u>
Current Liabilities	170,654	156,957
Long-Term Liabilities	<u>191,219</u>	<u>280,416</u>
<b>Total Liabilities</b>	<u>361,873</u>	<u>437,373</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	62,437	78,421
Restricted	18,407	18,805
Unrestricted	<u>767,239</u>	<u>772,860</u>
<b>Total Net Assets</b>	<u>\$ 848,083</u>	<u>\$ 870,086</u>

A portion of the District's net assets, \$18,407 (2.4%) represent resources that are subject to external restrictions on how they may be used. This amount relates to donor donations for the Breast and Cervical Cancer Program.

The District's net assets decreased by \$22,003 during the current fiscal year. This reflects the degree to which ongoing expenses exceeded ongoing revenues.

### Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets as of September 30, 2007, amounted to \$83,380 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements (the storage garage at the West Branch office), and furniture, fixtures and equipment. Net capital assets for the District decreased by \$25,973 or 24%. Future assets will be recognized only when value is equal to or greater than \$5,000 for each individual asset or each combined batch of assets purchased. No capital assets were purchased in the current year. Total depreciation expense for this year amounts to \$25,973 with ending accumulated depreciation being \$163,893.

#### Capital Assets Summary (Net of depreciation)

Buildings and improvements	\$ 23,855
Furniture, fixtures and equipment	<u>59,525</u>
<b>Capital Assets, Net</b>	<u>\$ 83,380</u>

Additional information on capital assets can be found in the Notes to Financial Statements, Note 4.

## Long-term Liabilities

**Note Payable.** A note payable was incurred in 2005 to finance capital improvements, namely the new phone system. At the end of the current fiscal year, the District had total notes payable of \$20,943.

**Compensated Absences.** Compensated absences for the District at fiscal year end amount to \$170,276, including \$8,315 due in the fiscal year ending September 30, 2008. This is the accumulated amount of benefits set aside for vested employees. Accrued leave benefits are shown as a liability on the government-wide financial statements.

Additional information on long-term debt can be found in the Notes to Financial Statements, Note 5.

**Governmental Fund Balance Reserves.** As previously noted the unreserved fund balance amounts to \$776,624 and is available for spending at the District's discretion. The remaining reserved fund balance is restricted from available spending and represents reserves to fund compensated absences and external donor donations for the Breast and Cervical Cancer Program.

## Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of District Health Department No. 2 at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
<b>Program Revenues:</b>		
Charges for Services	\$ 2,068,689	\$ 2,089,166
Operating Grants and Contributions	<u>2,324,474</u>	<u>2,217,548</u>
<b>Total Program Revenues</b>	<u>4,393,163</u>	<u>4,306,714</u>
<b>General Revenue:</b>		
Cigarette Tax	29,233	30,941
County Appropriations	435,481	435,481
Interest and Investment Earnings	17,073	19,674
Rent Income	64,055	64,805
Other	<u>94</u>	<u>11,658</u>
<b>Total General Revenue</b>	<u>545,936</u>	<u>562,559</u>
<b>Total Revenue</b>	4,939,099	4,869,273
<b>Program Expenses:</b>		
Health Department	4,959,957	4,871,569
Interest and Fees on Long-Term Debt	<u>1,145</u>	<u>1,447</u>
<b>Total Program Expenses</b>	<u>4,961,102</u>	<u>4,873,016</u>
<b>Change in Net Assets</b>	(22,003)	(3,743)
<b>Beginning Net Assets</b>	<u>870,086</u>	<u>873,829</u>
<b>Ending Net Assets</b>	<u>\$ 848,083</u>	<u>\$ 870,086</u>



**Excess of Expenditures**

The District budget versus actual indicates line items that have exceeded the final amended budget amounts. Primarily contractual services indicate a variance of \$130,599 and the operating supplies indicate a variance of \$380,300. The operating supply variance, however, includes the calculation of vaccine donated by MDCH as noted in Note 1 on page 15, which was included after the final budget amendment. This is attributable to the policy requirements of GASB 34 and was not reflected on the budget at the time of the final amendment as this amount was not known until much later. The resulting impact on the budget to actual reveals an overall excess in expenditures of \$375,102.

**Currently Known Conditions**

Funding from the State of Michigan continues to be uncertain each year due to budget constraints at the State level. Several grants during the year ended September 30, 2007 were ended early due to lack of funding from the State.

**Requests for Information**

This financial report is designed to provide a general overview of District Health Department No. 2 finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 630 Progress, West Branch, Michigan 48661.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

STATEMENT OF NET ASSETS  
September 30, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 242,567
Receivables: (Note 3)	
Accounts, Net	632,032
Due from Local Units	18,461
Due from State	73,045
Due from Federal Government	45,563
Prepaid Expenses	53,660
Inventory (Note 1)	61,248
Noncurrent Assets:	
Capital Assets, Net (Note 4)	<u>83,380</u>
Total Assets	<u>1,209,956</u>
<u>Liabilities</u>	
Accounts Payable	97,529
Accrued Liabilities	73,125
Long-Term Liabilities: (Note 5)	
Due Within One Year	18,760
Due In More Than One Year	<u>172,459</u>
Total Liabilities	<u>361,873</u>
<u>Net Assets</u>	
Invested In Capital Assets, Net of Related Debt	62,437
Restricted For:	
Breast and Cervical Cancer Program	18,407
Unrestricted	<u>767,239</u>
Total Net Assets	<u>\$ 848,083</u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2007

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities:				
Health and Welfare:				
Health Department	\$ 4,959,957	\$ 2,068,689	\$ 2,324,474	\$ (566,794)
Interest and Fees on Long-Term Debt	<u>1,145</u>	<u>0</u>	<u>0</u>	<u>(1,145)</u>
Total Governmental Activities	<u>\$ 4,961,102</u>	<u>\$ 2,068,689</u>	<u>\$ 2,324,474</u>	<u>(567,939)</u>
General Revenue:				
Cigarette Tax				29,233
County Appropriations				435,481
Interest and Investment Earnings				17,073
Rent Income				64,055
Other				<u>94</u>
Total General Revenue				<u>545,936</u>
Change in Net Assets				(22,003)
Net Assets - Beginning				<u>870,086</u>
Net Assets - Ending				<u>\$ 848,083</u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUND  
September 30, 2007

	<u>District Health Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ 81,676
Receivables: (Note 3)	
Accounts, Net	632,032
Due from Local Units	18,461
Due from State	73,045
Due from Federal Government	45,563
Prepaid Expenses	53,660
Inventory (Note 1)	61,248
Restricted Assets: (Note 1)	
Cash and Cash Equivalents	<u>160,891</u>
Total Assets	\$ <u><u>1,126,576</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
<u>Liabilities</u>	
Accounts Payable	\$ 97,529
Accrued Liabilities	<u>73,125</u>
Total Liabilities	<u>170,654</u>
<u>Fund Equity</u>	
Fund Balance:	
Reserved For: (Note 1)	
Compensated Absences	160,891
Breast and Cervical Cancer Program	18,407
Unreserved:	
Undesignated, Reported In:	
Special Revenue Funds	<u>776,624</u>
Total Fund Equity	<u>955,922</u>
Total Liabilities and Fund Equity	\$ <u><u>1,126,576</u></u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
September 30, 2007

Total Governmental Fund Balance		\$	955,922
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Assets Cost	\$	247,273	
Accumulated Depreciation		<u>(163,893)</u>	83,380
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Notes Payable		(20,943)	
Compensated Absences Payable		<u>(170,276)</u>	
Total Long-Term Liabilities			<u>(191,219)</u>
Total Net Assets - Governmental Activities		\$	<u><u>848,083</u></u>

The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Year Ended September 30, 2007

	<u>District Health Fund</u>
<u>Revenue</u>	
Federal Grants and Revenue	\$ 1,884,576
State Grants and Revenue	159,502
State Shared Revenue	503,046
Contributions from Local Units	461,481
Licenses and Permits	224,190
Charges for Services	1,813,364
Interest and Rentals	81,128
Other Revenue	<u>28,796</u>
Total Revenue	<u>5,156,083</u>
<u>Expenditures</u>	
Current:	
Health and Welfare	5,013,197
Debt Service:	
Principal	9,988
Interest and Fiscal Charges	<u>1,145</u>
Total Expenditures	<u>5,024,330</u>
Excess of Revenue Over (Under) Expenditures	131,753
Fund Balance - Beginning of Year	<u>824,169</u>
Fund Balance - End of Year	<u>\$ 955,922</u>

The accompanying notes to financial statements are an integral part of this statement.



DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2007

Total Net Change in Fund Balance - Governmental Fund	\$ 131,753
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Amounts reported for governmental activities in the statement of activities are different because:

Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:

Grants Receivable September 30, 2006	(216,980)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	(25,973)
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Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

Notes Payable	9,988
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net (increase) decrease in accrued compensated absences	<u>79,209</u>
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Change in Net Assets of Governmental Activities	\$ <u><u>(22,003)</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District Health Department No. 2 (Health Department) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Reporting Entity

District Health Department No. 2 functions as a joint venture between Ogemaw, Oscoda, Alcona and Iosco Counties. The Health Department was established to provide various health services to the residents of the above aforementioned counties.

The Health Department's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Health Department exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Health Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Health Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The special revenue fund of the Health Department is in the governmental category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Health Department's major governmental fund:

District Health Fund - The District Health Fund is the general operating fund of the Health Department. It is used to account for all financial resources.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Health Department as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Health Department that are governmental and those that are considered business-type activities. The Health Department does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Health Department's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Health Department, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Health Department.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Fund Financial Statements:

Fund financial statements report detailed information about the Health Department. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Health Department's special revenue fund is considered a major fund.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The governmental fund uses the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Health Department, available means expected to be received within 60 days of the fiscal year-end.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Nonexchange transactions, in which the Health Department receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Health Department must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Health Department on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, grants and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated vaccines used during the year is reported in the operating statement as donated revenue with a like amount reported as vaccine expense net of beginning and ending inventory amounts.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Health Department are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

G. Inventory – Vaccines

Inventory represents unused vaccines donated from the Michigan Department of Community Health.

Inventory on the financial statements is stated at cost and expensed when used.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

General capital assets are those assets that result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Health Department does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	3 - 20 years

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental fund are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

J. Compensated Absences

The Health Department reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Health Department's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Health Department or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2007.

M. Budgetary Policies and Data

District Health Department No. 2 normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Director of Finance submits to the Health Department Board a proposed budget prior to September 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of Board motion.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Health Department Board.

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for Special Revenue Funds.

N. Governmental Fund Balance Reserves

The Health Department records reservations for portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balance has been reserved by the Board for compensated absences. A reservation of fund balance has also been established for donor restricted donations to the Breast and Cervical Cancer Program.

O. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.



DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Health Department's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	\$ <u>242,567</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking Accounts)	\$ 81,029
Investments in Financial Institution Pooled Funds	160,891
Petty Cash and Cash on Hand	<u>647</u>
Total	\$ <u>242,567</u>

As of September 30, 2007, the Health Department had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	\$ <u>160,891</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the Health Department will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Health Department's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The Health Department's investment pool is unrated.

Custodial Credit Risk - Deposits

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

In the case of deposits, this is the risk that in the event of a bank failure, the Health Department's deposits may not be returned to it. As of September 30, 2007, \$61,512 of the Health Department's bank balance of \$161,512 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Health Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Health Department will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the Health Department's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Health Department will do business.

Foreign Currency Risk

The Health Department is not authorized to invest in investments which have this type of risk.

Investments

The Health Department Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Health Department to deposit and invest in the following:

- Accounts of federally insured banks, credit unions and savings and loan associations
- Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- United States government or federal agency obligation repurchase agreements
- Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Health Department's deposits and investments are in accordance with statutory authority.

NOTE 3 - RECEIVABLES

Receivables at September 30, 2007, consist of accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2007, was as follows:

	Beginning Balance 10/01/06	Increases	Decreases	Ending Balance 09/30/07
<u>Governmental Activities</u>				
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 36,700	\$ 0	\$ 0	\$ 36,700
Furniture, Fixtures and Equipment	<u>210,573</u>	<u>0</u>	<u>0</u>	<u>210,573</u>
Subtotal	<u>247,273</u>	<u>0</u>	<u>0</u>	<u>247,273</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(11,010)	(1,835)	0	(12,845)
Furniture, Fixtures and Equipment	<u>(126,910)</u>	<u>(24,138)</u>	<u>0</u>	<u>(151,048)</u>
Subtotal	<u>(137,920)</u>	<u>(25,973)</u>	<u>0</u>	<u>(163,893)</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 109,353</u>	<u>\$ (25,973)</u>	<u>\$ 0</u>	<u>\$ 83,380</u>

Depreciation expense was charged in full to the Health Department function.

NOTE 5 - LONG-TERM LIABILITIES

A. Notes Payable

Governmental

Capital Improvement Note:

\$45,262 note payable dated 2005 to First Bank - West Branch to finance capital improvements. Payable in monthly installments of \$928 including interest at 4.25% on the unpaid balance.

\$ 20,943

B. Compensated Absences Payable

The compensated absences balance represents benefits which Health Department employees have a vested right to receive upon termination and/or retirement from employment in accordance with formulas in negotiated contracts. The amount of accumulated compensated absences as of September 30, 2007 was \$170,276, of which \$8,315 is current.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

C. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Health Department for the year ended September 30, 2007:

	Balance 10/01/06	Issues or Additions	Payments or Expenditures	Balance 09/30/07	Due Within One Year
<u>Governmental Activities</u>					
Notes Payable	\$ 30,931	\$ 0	\$ 9,988	\$ 20,943	\$ 10,445
Compensated Absences	<u>249,485</u>	<u>0</u>	<u>79,209</u> *	<u>170,276</u>	<u>8,315</u>
Total Long-Term Liabilities	<u>\$ 280,416</u>	<u>\$ 0</u>	<u>\$ 89,197</u>	<u>\$ 191,219</u>	<u>\$ 18,760</u>

\*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$1,145.

The annual aggregate maturities for debt outstanding (excluding compensated absences) as of September 30, 2007 are as follows:

Notes Payable	Governmental Activities		Total
	Principal	Interest	
2008	\$ 10,445	\$ 688	\$ 11,133
2009	<u>10,498</u>	<u>234</u>	<u>10,732</u>
Total	<u>\$ 20,943</u>	<u>\$ 922</u>	<u>\$ 21,865</u>

NOTE 6 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Health Department's actual expenditures and budgeted expenditures for the budgetary fund has been shown on an activity basis. The approved budget of the Health Department was adopted at the activity level.

During the year ended September 30, 2007, the Health Department incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Special Revenue/Advertising	\$ 6,059	\$ 12,737	\$ 6,678
Special Revenue/Contractual Services	\$ 106,680	\$ 237,279	\$ 130,599
Special Revenue/Operating Supplies	\$ 114,552	\$ 494,852	\$ 380,300
Special Revenue/Travel	\$ 257,971	\$ 285,629	\$ 27,658
Special Revenue/Other	\$ 3,418	\$ 5,384	\$ 1,966

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 6 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS (CONTINUED)

NOTE 7 - RETIREMENT PLANS

Defined Benefit Plan

Plan Description

The Health Department's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The plan covers all employees hired prior to January 1, 2000 who elected not to participate in the MERS defined contribution plan on May 1, 2001. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling 1-800-767-6377.

Funding Policy

The Health Department is required to contribute at an actuarially determined rate. The current rate is 10.96% of annual covered payroll for general members and 12.94% of covered payroll for management members. Employees are required to contribute 1% of eligible earnings for general members and 2% of eligible earnings for management members. If a member leaves the employ of the Health Department, or dies, without a retirement allowance or other benefit payable on his account, the members' accumulated contributions (with interest) are refunded to the member, if living, or to the surviving spouse or members beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

Annual Pension Cost

For the year ended September 30, 2007, the Health Department's pension cost of \$179,178 was equal to the Health Department's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to merit longevity and promotions. Both (a) and (b) include an inflation component. The District's net pension obligation has been fully funded at September 30, 2007.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 7 - RETIREMENT PLANS (CONTINUED)

The District adopted GASB 27 Accounting for Pensions by State and Local Governmental Employer. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability at December 31, 2006

Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$ 1,819,728
Terminated employees (vested former members) not yet receiving benefits	567,465
Non-vested terminated employees (Pending refunds of accumulated member contributions)	13,733
Current employees -	
Accumulated employee contributions including allocated investment income	235,145
Employer financed	<u>2,700,464</u>
Total Actuarial Accrued Liability	5,336,535
Net assets available for benefits at actuarial value (Market value was \$4,503,171)	<u>4,441,046</u>
Unfunded Actuarial Accrued Liability	<u>\$ 895,489</u>

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2005	\$ 160,795	100 %	\$ 0
September 30, 2006	\$ 158,403	100 %	\$ 0
September 30, 2007	\$ 179,178	100 %	\$ 0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u>
12/31/04	\$ 3,838,318	\$ 4,693,056	\$ 854,738	82 %	\$ 1,461,746	58 %
12/31/05	\$ 4,101,599	\$ 5,028,580	\$ 926,981	82 %	\$ 1,521,793	61 %
12/31/06	\$ 4,441,046	\$ 5,336,535	\$ 895,489	83 %	\$ 1,339,377	67 %



DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Defined Contribution Plan

Plan Description

The Health Department's defined contribution pension plan provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after January 1, 2000. The plan was also made available to current employees in the form of a one-time option to move from the MERS Defined Benefit Plan to the MERS Defined Contribution Plan. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operated under Public Act 220 of 1996, and the MERS Plan Document as revised. The plan services are provided by an Alliance Agreement of May 1997 by MERS, exclusively through the ICMA Retirement Corporation as the plan administrator. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing MERS of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling 1-800-767-6377.

Funding Policy – Union Employees

The Health Department is required to contribute 5% of each eligible union employee's earnings for the plan year, subject to the limitations of sections 415(c) and (e) of the Internal Revenue Code. Employees are not required to contribute. However, if employees contribute 6% of eligible earnings, the employer will match the contribution at 6%.

Funding Policy – Non-Union Employees

The Health Department is required to contribute 7% of each eligible non-union employee's earnings for the plan year, subject to the limitations of sections 415(c) and (e) of the Internal Revenue Code. Employees are required to contribute 7% of eligible earnings.

Vesting

Both union and non-union employees become vested in the plan at the rate of 20% per year after one year of service with 100% vesting after five years of service.

Plan Contributions

During the year ended September 30, 2007, the Health Department contributed \$48,500 on behalf of union employees, and \$7,218 on behalf of non-union employees. Employee contributions amounted to \$33,883 for union employees and \$3,810 for non-union employees.

NOTE 8 - RISK MANAGEMENT

The Health Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Health Department continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 9 - CONTINGENCIES AND COMMITMENTS

The Health Department participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended September 30, 2007, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Health Department expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 DISTRICT HEALTH FUND - SPECIAL REVENUE FUND  
For the Year Ended September 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal Grants and Revenue	\$ 1,361,903	\$ 1,578,467	\$ 1,884,576	\$ 306,109
State Grants and Revenue	118,427	137,258	159,502	22,244
State Shared Revenue	480,382	219,456	503,046	283,590
Contributions from Local Units	435,481	326,823	461,481	134,658
Licenses and Permits	223,358	216,101	224,190	8,089
Charges for Services	1,807,172	1,748,457	1,813,364	64,907
Interest and Rentals	147,312	312,772	81,128	(231,644)
Other Revenue	51,758	109,893	28,796	(81,097)
Total Revenue	<u>4,625,793</u>	<u>4,649,227</u>	<u>5,156,083</u>	<u>506,856</u>
<u>Expenditures</u>				
Current:				
Salaries and Wages	2,653,998	2,583,082	2,576,816	6,266
Payroll Taxes and Employee Benefits	1,035,051	1,039,003	1,009,535	29,468
Advertising	2,860	6,059	12,737	(6,678)
Contractual Services	143,741	106,680	237,279	(130,599)
Dues and Subscriptions	6,514	13,784	6,563	7,221
Education	8,853	18,733	6,707	12,026
Insurance	38,000	80,505	46,960	33,545
Office Expense	56,500	56,007	42,563	13,444
Operating Supplies	110,795	114,552	494,852	(380,300)
Printing	8,328	8,262	4,223	4,039
Rent	128,745	148,560	133,154	15,406
Repairs and Maintenance	53,219	90,478	68,419	22,059
Travel	266,182	257,971	285,629	(27,658)
Utilities	100,492	88,238	82,376	5,862
Other	1,615	3,418	5,384	(1,966)
Capital Outlay	0	10,900	0	10,900
Debt Service:				
Principal	9,810	20,776	9,988	10,788
Interest and Fiscal Charges	1,090	2,220	1,145	1,075
Total Expenditures	<u>4,625,793</u>	<u>4,649,228</u>	<u>5,024,330</u>	<u>(375,102)</u>
Excess of Revenue Over (Under) Expenditures	0	(1)	131,753	131,754
Fund Balances - Beginning of Year	<u>824,169</u>	<u>824,169</u>	<u>824,169</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 824,169</u>	<u>\$ 824,168</u>	<u>\$ 955,922</u>	<u>\$ 131,754</u>



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Herman A. Bertuleit

December 10, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board  
District Health Department No. 2  
Ogemaw County, Michigan

We have audited the financial statements of the governmental activities and the major fund of District Health Department No. 2, Ogemaw County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the District Health Department No. 2's basic financial statements and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District Health Department No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District Health Department No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District Health Department No. 2's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District Health Department No. 2's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District Health Department No. 2's financial statements that is more than inconsequential will not be prevented or detected by the District Health Department No. 2's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

District Health Department No. 2 prepares various financial information throughout the year to assess operations and the financial condition of the Health Department. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Health Department relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.



*Stephenson, Gracik & Co., P.C.*

Members of the Board  
District Health Department No. 2  
December 10, 2007

District Health Department No. 2 has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Health Department is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Health Department would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District Health Department No. 2's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above not to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District Health Department No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of District Health Department No. 2 in a separate letter dated December 10, 2007.

This report is intended solely for the information and use of management, the Board of Health, the Michigan Department of Treasury, the Michigan Department of Community Health, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Herman A. Bertuleit

December 10, 2007

Members of the Board  
District Health Department No. 2  
Ogemaw County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities and the major fund of District Health Department No. 2 for the year ended September 30, 2007, and have issued our report thereon dated December 10, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated November 18, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered District Health Department No. 2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether District Health Department No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about District Health Department No. 2's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on District Health Department No. 2's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on District Health Department No. 2's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by District Health Department No. 2 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by District Health Department No. 2 during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



# *Stephenson, Gracik & Co., P.C.*

Members of the Board  
District Health Department No. 2  
December 10, 2007  
Page 2

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District Health Department No. 2's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District Health Department No. 2, either individually or in the aggregate, indicate matters that could have a significant effect on the District Health Department No. 2's financial reporting process.

## Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

## Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District Health Department No. 2's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## Additional Information

As a result of our study and evaluation of the internal controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendations.



# Stephenson, Gracik & Co., P.C.

Members of the Board  
District Health Department No. 2  
December 10, 2007  
Page 3

## Financial Statement Preparation

District Health Department No. 2 prepares various financial information throughout the year to assess operations and the financial condition of the Health Department. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Health Department relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

District Health Department No. 2 has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Health Department is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Health Department would not be in a position to detect the errors or omissions.

## Budget Control

The Health Department Fund included expenditures in some activities that exceeded appropriated amounts. We noted that the Michigan Department of Community Health currently allows a budget variance of \$5,000 over or under budget in any one line item before a budget amendment is required. We recommend that the Health Department Board continue to review the adopted budgets on a periodic basis, adopt all budgets based on total anticipated revenue and expenditure activity, take into consideration year end audit accruals, and amend as needed to be in compliance with the Uniform Budgeting and Accounting Act and Michigan Department of Community Health regulations.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of District Health Department No. 2.

This information is intended solely for the use of management, the Board of Health, the Michigan Department of Treasury, the Michigan Department of Community Health, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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DISTRICT HEALTH DEPARTMENT NO. 2  
OGEMAW COUNTY, MICHIGAN  
SINGLE AUDIT REPORTS  
YEAR ENDED SEPTEMBER 30, 2007

## I\_N\_D\_E\_X

	<u>PAGE</u>
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1 - 2
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	3 - 4
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	6 - 7
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	8 - 12





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December 10, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board  
District Health Department No. 2  
Ogemaw County, Michigan

We have audited the financial statements of the governmental activities and the major fund of the District Health Department No. 2, Ogemaw County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the District Health Department No. 2's basic financial statements and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District Health Department No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District Health Department No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District Health Department No. 2's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District Health Department No. 2's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District Health Department No. 2's financial statements that is more than inconsequential will not be prevented or detected by the District Health Department No. 2's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District Health Department No. 2's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described as item 07-1 in the accompanying schedule of findings and questioned costs not to be a material weakness.

Stephenson, Gracik & Co., P.C.

Members of the Board  
District Health Department No. 2  
December 10, 2007  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District Health Department No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the District Health Department No. 2 in a separate letter dated December 10, 2007.

This report is intended solely for the information and use of management, the Board of Health, the Michigan Department of Treasury, the Michigan Department of Community Health and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*





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December 10, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board  
District Health Department No. 2  
Ogemaw County, Michigan

Compliance

We have audited the compliance of District Health Department No. 2 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. District Health Department No. 2's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District Health Department No. 2's management. Our responsibility is to express an opinion on District Health Department No. 2's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about District Health Department No. 2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of District Health Department No. 2's compliance with those requirements.

In our opinion, District Health Department No. 2 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of District Health Department No. 2 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered District Health Department No. 2's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of District Health Department No. 2's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

*Stephenson, Gracik & Co., P.C.*

Members of the Board  
District Health Department No. 2  
December 10, 2007  
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the major fund of the District Health Department No. 2, as of and for the year ended September 30, 2007, and have issued our report thereon dated December 10, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise District Health Department No. 2's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Health, the Michigan Department of Treasury, the Michigan Department of Community Health, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended September 30, 2007

There were no findings or questioned costs for the year ended September 30, 2006.



DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2007

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of District Health Department No. 2.
- (2) One significant deficiency relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of District Health Department No. 2, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for District Health Department No. 2 expresses an unqualified opinion.
- (6) The auditors' report disclosed no audit findings relative to the major federal award programs for District Health Department No. 2.
- (7) The programs tested as major programs included:  
     CFDA #93.268 Immunization and Vaccine Provided  
     CFDA #93.283 Centers for Disease Control and Prevention – Investigations and Technical Assistance
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) District Health Department No. 2 qualified as a low-risk auditee.

Findings – Financial Statements Audit

07-1 Financial Statement Preparation

District Health Department No. 2 prepares various financial information throughout the year to assess operations and the financial condition of the Health Department. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Health Department relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

District Health Department No. 2 has individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Health Department is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Health Department would not be in a position to detect the errors or omissions.

**Criteria:** Accounting principles require personnel of District Health Department No. 2 have the knowledge to review and determine the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2007

Findings - Financial Statements Audit (Continued)

07-1 Financial Statement Preparation (Continued)

**Condition:** District Health Department No. 2's personnel prepare various financial information throughout the year to assess operations and the financial condition of the Health Department. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Health Department relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

**Questioned Costs:** None.

**Context:** District Health Department No. 2 has individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Effect:** As a result, the Health Department is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Health Department would not be in a position to detect the errors or omissions.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending September 30, 2007.

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended September 30, 2007

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at 10/1/06	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue at 9/30/07	Adjustments
<u>U.S. Department of Agriculture</u>								
Passed through Michigan Department of Community Health: Special Supplemental Nutrition Program for Women, Infants and Children: XX4W1006	10.557	\$ 229,481	\$ 0	\$ 0	\$ 229,481	\$ 229,481	\$ 0	\$ 0
Local Agency Infra - Special Projects		3,000	0	0	3,000	3,000	0	0
Local Agency Development - Special Projects		1,312	0	0	1,312	1,312	0	0
		<u>233,793</u>	<u>0</u>	<u>0</u>	<u>233,793</u>	<u>233,793</u>	<u>0</u>	<u>0</u>
<u>Environmental Protection Agency</u>								
Passed through the Michigan Department of Environmental Quality: Arsenic Rule Implementation	66.468	2,474	2,474	356	0	1,406	0	1,050
Capital Grant for the Drinking Water Revolving Fund		300	300	0	0	300	0	300
Capital Grant for the Drinking Water Revolving Fund FS97548704		1,500	0	0	1,500	0	1,500	0
		<u>4,274</u>	<u>2,774</u>	<u>356</u>	<u>1,500</u>	<u>1,706</u>	<u>1,500</u>	<u>1,350</u>
Reimbursement to Operators of Small Water Systems for Training and Certification Costs:	66.471							
FY 2006		9,100	9,100	1,900	0	1,900	0	0
FY 2007		11,550	0	0	6,600	4,950	1,650	0
		<u>20,650</u>	<u>9,100</u>	<u>1,900</u>	<u>6,600</u>	<u>6,850</u>	<u>1,650</u>	<u>0</u>
Beach Monitoring and Notification Program Development Grants:	66.472							
FY 2006		11,112	11,112	4,917	0	4,917	0	0
FY 2007		8,778	0	0	8,778	0	8,778	0
		<u>19,890</u>	<u>11,112</u>	<u>4,917</u>	<u>8,778</u>	<u>4,917</u>	<u>8,778</u>	<u>0</u>
Total Environmental Protection Agency		<u>44,814</u>	<u>22,986</u>	<u>7,173</u>	<u>16,878</u>	<u>13,473</u>	<u>11,928</u>	<u>1,350</u>
<u>U.S. Department of Health and Human Services</u>								
Passed through St. Joseph Health Systems: SPRANS - Community Based Abstinence Grant 9/29/06	93.110	74,653	64,503	32,472	0	32,472	0	0
SPRANS - Community Based Abstinence Grant 9/30/07		76,604	0	0	76,604	47,837	28,767	0
		<u>151,257</u>	<u>64,503</u>	<u>32,472</u>	<u>76,604</u>	<u>80,309</u>	<u>28,767</u>	<u>0</u>

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended September 30, 2007

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at 10/1/06	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue at 9/30/07	Adjustments
<u>U.S. Department of Health and Human Services (Continued):</u>								
Passed through Michigan Department of Community Health: Family Planning Services O5H000173	93.217	\$ 49,861	\$ 0	\$ 0	\$ 49,861	\$ 49,861	\$ 0	\$ 0
Passed through Michigan Department of Community Health: Immunization and Vaccine Provided H23 CCH522556	93.268	20,845	0	0	20,845	20,845	0	0
VFC Provider Site Visits H23 CCH522556		5,050	0	0	5,050	5,050	0	0
Immunization Nurse Education H23 CCH522556		300	0	0	300	300	0	0
Immunization and Vaccine Provided		373,412	0	0	373,412	373,412	0	0
		399,607	0	0	399,607	399,607	0	0
Passed through the Substance Abuse and Mental Health Services Administration: Drug Free Communities Support Program 5 H79 SP12939-02	93.276	100,000	0	0	100,000	54,437	45,563	0
Passed through Michigan Department of Community Health: Centers for Disease Control and Prevention - Investigations and Technical Assistance - Chronic Disease Prevention and Health Promotion:	93.283							
Bioterrorism Focus A CCU517018		173,502	0	0	173,502	173,502	0	0
Bioterrorism Pandemic Flu CCU517018		44,541	0	0	44,541	44,541	0	0
Breast and Cervical Cancer Control U57 CCU506738		67,027	0	0	67,027	67,027	0	0
Breast and Cervical Cancer Control U57 CCU506738		1,320	0	0	1,320	1,320	0	0
Chronic Disease Prevention and Health Promotion U58 CCU522826 01		19,691	0	0	19,691	19,691	0	0
		306,081	0	0	306,081	306,081	0	0
Passed through the Michigan Department of Human Services: Strong Families, Safe Children:	93.556							
SFSC-03-01004-2		48,000	48,000	4,592	0	4,592	0	0
SFSC-04-68003-3		29,075	27,772	3,496	0	3,496	0	0
SFSC-04-68003-4		25,075	0	0	25,075	25,075	0	0
CAN-06-35001		24,999	4,497	1,233	0	1,233	0	0
CAN-06-35001-2		24,999	0	0	7,084	7,084	0	0
		152,148	80,269	9,321	32,159	41,480	0	0

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended September 30, 2007

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at 10/1/06	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue at 9/30/07	Adjustments
<u>U.S. Department of Health and Human Services (Continued):</u>								
Temporary Assistance for Needy Families:	93.558							
Passed through the Michigan Department of Human Services:								
CAN-06-35001		\$ 24,999	\$ 4,497	\$ 1,233	\$ 0	\$ 1,233	\$ 0	\$ 0
CAN-06-35001-2		24,999	0	0	10,626	10,626	0	0
CTFPR-05-01001		162,250	151,852	(10,398)	0	(10,398)	0	0
CTFPR-05-01001		176,041	0	0	176,041	176,041	0	0
		<u>388,289</u>	<u>156,349</u>	<u>(9,165)</u>	<u>186,667</u>	<u>177,502</u>	<u>0</u>	<u>0</u>
 Medicaid Cluster								
Passed through the Michigan Department of Community Health:	93.778							
Title XIX - Medicaid Outreach 50506M15048		114,062	82,548	18,905	31,514	50,042	0	(377)
Medicaid Administration 5XX05M15048		15,234	0	0	15,234	15,234	0	0
CSHCS Care Coordination 50506M15048		22,186	11,167	1,008	11,019	13,017	0	990
Title XIX - Full Cost Reimbursement Program		164,624	164,624	164,624	0	147,877	0	(16,747)
Title XIX - Full Cost Reimbursement Program		174,609	0	0	174,609	174,609	0	0
		<u>490,715</u>	<u>258,339</u>	<u>184,537</u>	<u>232,376</u>	<u>400,779</u>	<u>0</u>	<u>(16,134)</u>
Passed through MIChoice:								
Medicaid Waiver Program		<u>1,377</u>	<u>0</u>	<u>0</u>	<u>1,377</u>	<u>1,377</u>	<u>0</u>	<u>0</u>
Total Medicaid Cluster		<u>492,092</u>	<u>258,339</u>	<u>184,537</u>	<u>233,753</u>	<u>402,156</u>	<u>0</u>	<u>(16,134)</u>
 Passed through Michigan Department of Community Health:								
HIV Prevention Act Health Department Based	93.940							
U62 CCU523464		<u>34</u>	<u>0</u>	<u>0</u>	<u>34</u>	<u>34</u>	<u>0</u>	<u>0</u>
 Passed through Northern Michigan Substance Abuse Services:								
Youth Tobacco Education DYTUR	93.959	6,023	4,198	937	0	937	0	0
Youth Tobacco Education DYTUR		<u>6,012</u>	<u>0</u>	<u>0</u>	<u>4,810</u>	<u>2,313</u>	<u>2,497</u>	<u>0</u>
		<u>12,035</u>	<u>4,198</u>	<u>937</u>	<u>4,810</u>	<u>3,250</u>	<u>2,497</u>	<u>0</u>

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended September 30, 2007

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at 10/01/06	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue at 9/30/07	Adjustments
<u>U.S. Department of Health and Human Services (Continued):</u>								
Passed through Michigan Department of Community Health:	93.994							
Maternal and Child Health Services Block Grant:								
Title V Case Management Services B1MIMCHS		\$ 10,259	\$ 0	\$ 0	\$ 10,259	\$ 10,259	\$ 0	\$ 0
Title V Local MCH F B1MIMCHS		54,231	0	0	54,231	54,231	0	0
Title V Family Planning B1MIMCHS		10,086	0	0	10,086	10,086	0	0
		<u>74,576</u>	<u>0</u>	<u>0</u>	<u>74,576</u>	<u>74,576</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Health and Human Services		<u>2,125,980</u>	<u>563,658</u>	<u>218,102</u>	<u>1,464,152</u>	<u>1,589,293</u>	<u>76,827</u>	<u>(16,134)</u>
Total Federal Awards		<u>\$ 2,404,587</u>	<u>\$ 586,644</u>	<u>\$ 225,275</u>	<u>\$ 1,714,823</u>	<u>\$ 1,836,559</u>	<u>\$ 88,755</u>	<u>\$ (14,784)</u>

DISTRICT HEALTH DEPARTMENT NO. 2  
Ogemaw County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended September 30, 2007

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Health Department's federal awards and does not present transactions that would be included in financial statements of the Health Department presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Reconciliation to financial statements:

Federal revenue presented in the financial statements	\$ 1,884,576
Accounts receivable for the year ended September 30, 2006 that were not received:	
Title XIX - Medicaid Outreach	377
Title XIX - Full Cost Reimbursement Program	16,747
Additional monies received for prior year grant expenses:	
Arsenic Rule Implementatioin	(1,050)
Cap Grant for the Drinking Water Revolving Fund	(300)
CSHCS Care Coordination	(990)
Accounts receivable for the year ended September 30, 2006 received after 60 days of year-end and recognized as federal revenue in the current year financial statements:	
Title XIX Medicaid Outreach 50506M15048	(18,905)
CSHCS Care Coordination 50506M15048	(1,008)
Title XIX Full Cost Reimbursement Program	<u>(164,624)</u>
Federal revenue on the Schedule of Expenditures of Federal Awards	<u>\$ 1,714,823</u>